

Internal Audit of the Panama Country Office

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Panama Country Office. The audit sought to assess the governance, programme management and operations support. The audit was conducted from 20 March to 5 May 2015, and covered the period from January 2014 to April 2015.

The 2012-2015 country programme had three original main programme components: *Strategic information*; *Protection framework*; and *Inclusion and reducing disparities*. A fourth component, *Social mobilization and advocacy*, was added following the mid-term review of the country programme in December 2013. However, the new component replaced a previous cross-sectoral component, so the total budget for the programme has remained unchanged at US\$ 7.7 million, of which US\$ 3 million is regular resources (RR) and US\$ 4.7 million is other resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without donor agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR.

The country office is based in Panama City. There is a total workforce of 11, consisting of one international professional, five national officers and five general service staff. At the time of the audit, one national officer post was vacant.

Since 2013, the office has received operations and finance-related services from the Shared Service Centre in Panama (Panama Hub). Human resources (HR) and information and communications technology (ICT)-related services are supplied by the Latin America and Caribbean Regional Office (LACRO), which is also in Panama.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures. None are being implemented as high priority—that is, concerning issues that require immediate management attention.

Conclusion

The audit concluded that the controls and processes over the Panama country office were generally established and functioning during the period under audit. The measures to address the issues raised are presented with each observation in the body of this report. The Panama country office has prepared an action plan to address the issues raised.

The country office, with support from the Regional Office (LACRO), and OIAI will work together to monitor implementation of these measures.

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Objectives

The objective of the country-office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

The audit observations are reported upon under three headings: governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them define the scope of the audit.

Audit Observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following:

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation.
- **Performance measurement,** including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management:** the office's approach to external and internal risks to achievement of its objectives.
- **Ethics,** including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the areas above were covered in this audit.

The audit noted a number of areas where controls were functioning well. The office's Country Management Team (CMT) met periodically, monitoring general office and programme management issues and documenting its discussions. The office also had an adequate staffing structure that was aligned to the needs of the country programme and was as approved by the Programme and Budget Review (PBR).¹

¹ The PBR is a review of a UNICEF unit or country office's proposed management plan for its forthcoming country programme. For a country office, it is carried out by a regional-level committee, which will examine – among other things – the proposed office structure, staffing levels and fundraising strategy, and whether they are appropriate for the proposed activities and objectives.

There was an up-to-date Table of Authority (ToA), and financial accountabilities had been acknowledged by the staff members to whom they had been delegated. There were no significant conflicts in the roles assigned.

Performance appraisals for 2014 were completed on time for all staff. Review of the appraisals for critical programme staff showed that their accountabilities for results were generally well recorded.

All staff had signed the Oath of Office. Ethics training had been identified as a training priority, and was planned and monitored in the 2014 training plan.

However, the audit noted the following.

Responsibilities and work process

With the approval of the 2011 regional PBR, the Shared Service Centre in Panama (Panama Hub) was established for the country offices of Belize, Panama and Venezuela, effective 1 January 2013. The 2013 regional PBR approved the proposal that more country offices join the Panama Hub during 2014 to 2016. As of May 2015, there were 11 members of the Panama Hub (10 country offices and LACRO), including the Panama country office.

The Panama Hub had drawn up a Service Level Agreement (SLA). This provided the framework for provision of support services, to ensure that the work processes and responsibilities were clear between the Hub and the country offices it supports. The SLA with the Panama country office had an effective date from 1 February 2014 to 31 December 2015. Also, in September 2014, the Panama country office had issued a document titled *Country office's business process workflows*, which documented the existing internal work processes.

The audit conducted a review of the above documents and noted that while the work processes and responsibilities were generally well-identified and implemented, there were some inconsistencies between the documents, and what was implemented in practice. These are discussed below.

Bank optimization management: Country offices are required to optimize the funding they hold locally at any given time so that they have enough to meet their programme and operational needs, but are not holding surplus funds on which UNICEF centrally could earn a return, or that it could be using elsewhere. UNICEF's Division of Financial and Administrative Management (DFAM) monitors the amounts held by offices monthly and reports on whether they are optimal.

According to the SLA, the Hub was responsible for the optimization process. In practice, however, it was the country office that was doing it. This was not covered by *Country office's business process workflows*. At the time of the audit, the country office did not have full access to its bank account, meaning that it could not effectively carry out this responsibility. The audit sampled nine DFAM monthly bank optimization reports from 2014, and found that the country office had not meet the required bank balance benchmarks for six of those months.

Solicitation for individual contracts: The SLA said responsibility for this process was with the Hub, while *Country office's business process workflows* said it was with the country office. In practice, it was being done by the country office.

Solicitation for institutional contracts: The responsibility for this process did lie with the Hub, according to both the SLA and *Country office's business process workflows*. However, in practice bids for some institutional contracts were solicited by the country office.

Monitoring of outstanding Direct Cash Transfers (DCTs): The responsibility for this process lay with the Hub according to the SLA, but it was conducted by the country office in practice. *Country office's business process workflows* did not cover this process.

The audit did not express a view as to which of these responsibilities should reside with the office and which with the Hub. In view of the office's imminent migration to the Global Shared Services Centre (GSSC) planned for August 2015, this is best determined by the office, in consultation with the Hub. However, the audit noted that inconsistencies in assignment of responsibilities between the two documents could lead to unclear responsibilities and ineffective processes.

Agreed action 1 (medium priority): The country office has agreed to, with the support of Panama Hub (or the new Global Shared Services Centre² as necessary), clearly define the responsibilities for various operations, and eliminate inconsistencies between the Service Level Agreement and country office's business process workflows.

Staff responsible for taking action: Operations Manager Panama Hub; Operations Assistant, Panama country office

Date by which action will be taken: December 2015

Agreed action 2 (medium priority): The country office agrees to keep the bank balances within the UNICEF benchmarks established for bank optimization.

Staff responsible for taking action: Operations Manager Panama Hub; Operations Assistant, Panama country office

Date by which action will be taken: December 2015

Governance: Conclusion

Based on the audit work performed, OIAI concluded that the control processes over Governance were generally established and functioning during the period under audit.

² UNICEF's new Global Shared Service Centre (GSSC), based in Budapest, will handle some transactions centrally, in order to streamline transactions processing and make better use of resources. It will begin operation in 2016.

2 Programme management

In this area, the audit reviews the management of the country - that is, the activities and interventions on behalf of children and women. The programme is owned primarily by the host Government. The scope of the audit in this area includes the following:

- **Resource mobilization and management.** This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning.** The use of adequate data in program design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and time bound (SMART), planning resources needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation.** This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation.** This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation.** The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the areas above were covered in this audit.

The audit noted some controls that were functioning well. The office had renewed 2014-2015 Multi-Year Workplans (MYWPs) with the seven main Ministries after the change of government. The office conducted individual meetings with the new counterparts of the Ministries as an opportunity to further strengthen government ownership, inform them of the UNICEF programmes and revise the workplans as needed to be in line with the renewed government priorities. All seven MYWPs identified the implementing partners involved, timelines of the activities, and planned funding, and had been endorsed by the counterparts.

The annual report was submitted on time in 2014 and no donor reports required submission during the period under audit.

However, the audit noted the following.

Resource mobilization

The UNICEF Programme Policy and Procedure Manual encourages offices to establish a resource mobilization³ strategy that sets specific targets for the programme period, and

³ While the terms “resource mobilization” and “fundraising” are often used interchangeably, the former is slightly broader; although fundraising is its largest single component, it also includes mobilizing resources in the form of people (volunteers, consultants and seconded personnel), partnerships, or equipment and other in-kind donations.

outlines how, where, when and with whom resource mobilization activities will be undertaken. This should include analysis of the specific fundraising context, ideas, events and opportunities for engagement with the donors, as well as maintenance of contacts with representatives of donor countries based in the country or the region, and with the concerned UNICEF donor focal point.

For the 2012-2015 country programme, the office had budgeted for US\$ 4.7 million of OR (as explained in the Summary on p2 above, country offices are responsible for raising their own OR). The audit noted that there was room for improvement in systematic monitoring of funding, and in establishing the resource mobilization strategy and plan.

First, the office was underfunded by US\$ 1,086,000 (or 23 percent) halfway through the last year of the four-year country programme. However, it was not possible to establish whether there were specific result areas that were over-funded or under-funded, because the programme structure as shown in the system was not aligned with what had been approved in the mid-term review report. The audit was not therefore in a position to determine the funding status for each output.

While the office said that it was monitoring overall OR ceiling, it had yet to establish a systematic monitoring process for the funding status for each output. During 2014 and up to the time of the audit in 2015, the office had monitored the overall funding status twice a year (during annual reviews, and in the CMT meeting at the beginning of the year). UNICEF offices have access to the organization's monitoring system, inSight, which includes funding status per output for each country office; however, as mentioned above, because the office's revised programme structure was not properly recorded in the system, this was not a useful option for accurately capturing the funding status per outcome/output.

In the Country Programme Management Plan (CPMP),⁴ the office planned that it would raise US\$ 650,000 per year in OR from in country donors and other sources. At the time of audit, the office had raised US\$ 300,000 (from the government) for 2014, which was about 46 percent of the planned annual amount. The office did not indicate how it would meet the remaining balance.

The audit noted that the office had yet to develop a resource mobilization strategy and plan based on an analysis of whether the planned targets for the office were realistic and/or met. It said it planned to develop a resource mobilization strategy and plan for the next country programme, and that this was a work in progress at the time of audit. In fact, in 2013 UNICEF had commissioned an external firm to explore local fundraising possibilities in three countries, Panama, Costa Rica and the Dominican Republic. The study analysed the internal and external environment as well as made recommendations for communication and fundraising strategies. The office informed the audit that it started to implement the study's recommendations in 2015.

Inadequate mechanisms for mobilization and monitoring of resources could affect achievement of planned results.

Agreed action 3 (medium priority): The country office agrees to:

⁴ When preparing a new country programme, country offices prepare a country programme management plan (CPMP) to describe, and help budget for, the human and financial resources that they expect will be needed.

- i. In coordination with, and with the support of, the Regional Office, draw up and implement a resource mobilization strategy and plan that is informed by UNICEF guidance, and by the recommendations in the 2013 study.
- ii. Establish adequate mechanisms for effective monitoring of funding status.

Staff responsible for taking action: Representative, and Planning and Evaluation specialist

Date by which action will be taken: February 2016

Harmonized Approach to Cash Transfers (HACT)

Offices are expected to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs.

HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of implementing partners expected to receive US\$ 100,000 or more per year from UNICEF. For those receiving less than this figure, offices should consider whether a micro-assessment is necessary; if they think it is not, they can apply a simplified financial management checklist set out in the HACT procedure. At country level, HACT involves a macro-assessment of the country's financial management system.

As a further safeguard, the HACT framework requires offices to carry out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring, scheduled audit and special audits. There should be audits of implementing partners expected to receive more than US\$ 500,000 during the programme cycle. HACT is also required for UNDP and UNFPA and the agencies are meant to work together to implement it.

During 2014 and up to the time of audit in April 2015, the office had made good progress in implementing HACT. The office had developed an assurance plan using the stipulated format, and programmatic visit frequency requirements were met. Training on new HACT procedures for staff took place in October 2014 and was planned for partners in June 2015. The audit reviewed the office's implementation of HACT and noted the following.

Macro-assessment: An agreement with Government on macro-assessment was included in 2012-2015 Country Programme Action Plan (CPAP),⁵ but it had not yet been done. The office planned to conduct a joint macro-assessment with UNDP and UNFPA during 2015.

Micro-assessment: Under HACT guidelines, micro-assessments are required for all implementing partners receiving over US\$ 100,000. There were no implementing partners that received over US\$ 100,000 in 2014. In 2013, micro-assessments had been conducted for two of the three partners receiving over US\$ 100,000 (excluding one government counterpart).

⁵ The CPAP is a formal agreement between a UNICEF office and the host Government on the programme of cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

Spot-checks: In 2014, the office had conducted three spot-checks. However, selection for these spot-checks was not fully risk-based. For example, one of the implementing partners (with PCA a value of US\$ 73,632) received a spot-check while another partner with larger PCA, worth US\$ 96,915, did not.

The audit reviewed two spot-checks. It found that in one of the two cases, the sampled cash transfers and their supporting documents had not been verified due to inaccessibility of the document during the visit, and this was not followed up later. At the time of audit, spot-checks were pending as the office planned to have them conducted by a qualified staff or external consultants, as required by recently issued revised HACT guidelines.

Programmatic visits: These are not done solely for HACT purposes (they are part of programme implementation and monitoring as well), but are nonetheless important assurance activities in the HACT context. The number of programmatic visits conducted had been incorrectly reported in the 2014 HACT assurance report. While the office had reported it had conducted 31 programmatic visits in 2014, in reality only 25 visits had been conducted (three visits were conducted in 2015 and another three visits were double-counting of spot-checks). Programmatic visits for 2015 were being planned at the time of audit.

The audit reviewed documentation (i.e. reports, bullet points in e-mails) of five programmatic visits for five partners and found that the completeness and quality was inconsistent.

Inadequate or incomplete risk assessment and assurance activities may lead to ineffective use of resources leading to delays in achieving planned results.

Agreed action 4 (medium priority): The country office has agreed to implement the Harmonized Approach to Cash Transfers (HACT) in accordance with the revised 2014 HACT guidelines and procedures. The implementation should include, as necessary, conduct of macro-assessments in coordination with other UN Agencies, and planning, implementation, and reporting of assurance activities based on the HACT guidelines.

Staff responsible for taking action: HACT focal point, Operations Assistant

Date by which action will be taken: February 2016

Results reporting

UNICEF offices report their results in the Results Assessment Module (RAM), which is based on the programme structure as recorded in UNICEF's management system, VISION. The audit noted the following regarding the office's reporting of results.

Programme structure: The audit noted that the office's progress per outcome and output⁶ could not be adequately monitored or assessed as the programme structure was not correctly recorded in the system. As explained in the Summary (p2 above), the office had revised its

⁶ UNICEF programmes plan for results on two levels, the terminology for which changed in 2014. An outcome (until recently known as a programme component result, or PCR) is a planned result of the country programme, against which resources will be allocated. It consists of a change in the situation of children and women. An output (previously known as an intermediate result, or IR) is a description of a change in a defined period that will significantly contribute to the achievement of an outcome. Thus an output might include (say) the construction of a school, but that would not in itself constitute an outcome; however, an improvement in education or health arising from it would.

programme structure after the mid-term review; it was now comprised of four outcomes and eight outputs. In the system, however, there were 15 outputs. The differences were due to incorrect recording.

Four of the indicators of these eight outputs were recorded under wrong outputs. Three other indicators were not being monitored – two of these being incorrectly recorded as discontinued and the third not being recorded. The office stated that the programme structure could not be amended promptly in the system after the mid-term review in December 2013 due to transactions remaining open, which prevented the office from closing/discontinuing some of the outputs against which they had been made.

Incorrect recording of programme structure risks the office not gaining an accurate overall picture of implementation progress and budget and funding status per outcome and output.

Results Assessment Module (RAM): The audit reviewed the quality of the results reporting in RAM. Statements of progress against outcomes should be updated once a year, and the outputs, twice a year; these updates were not always done. For the four outcomes, only the progress of one outcome was updated annually in both 2014 and 2015. The remaining three outcomes were updated only in 2015. None of the eight outputs had been updated twice a year as required (it had been done annually in 2014 and 2015).

Progress statements were not always supported by the status of identified indicators. The indicators were not always periodically updated and/or lacked concrete data on the latest achievements against the baseline. Of 15 indicators sampled, 11 were last updated in January 2013, and four were last updated in December 2013 (they should be updated at the same time as the progress narratives). Further, some indicators had recorded status as 'pending' or what should be achieved, instead of the latest achievements.

The above conditions occurred because of inadequate quality assurance when updating the RAM. The office did use a quality review mechanism using the format stipulated by the guidelines;⁷ however, it applied it only to the progress statements/narratives, and not to the indicators. In addition, of eight outputs reviewed by the office's quality assurance, one was rated as 'constrained' by the quality assurance review and then recorded as 'on-track' in the RAM.

Agreed action 5 (medium priority): The country office has agreed to strengthen monitoring by:

- i. Establishing mechanisms to record programme structure accurately and completely in VISION.
- ii. Establishing mechanisms so that progress ratings, statements and indicators are accurately and completely recorded and periodically updated in accordance with the revised *Procedure on Using the Results Assessment Module (RAM 2.0) of VISION/inSight*.

Staff responsible for taking action: Planning and Evaluation Specialist

Date by which action will be taken: January 2016

⁷ *Procedure on Using the Results Assessment Module (RAM 2.0) of VISION/inSight (FRG/PROCEDURE/2014/003)*.

Evaluation

The office had established an Integrated Monitoring & Evaluation Plan (IMEP) for the 2012-2015 country programme, and annual IMEPs for 2014 and 2015. However, the audit noted that, in the CPMP, the office had planned to have a 'clearly defined evaluation strategy to measure the impact of the country programme in 2015'. This was to be ready by the end of 2014. However, the five evaluations in the 2012-2015 country programme IMEP had not been consistently incorporated into the annual IMEPs.

Further, the audit noted that the office's planned outcomes/outputs could not be adequately evaluated as planned. Two of the five evaluations had been completed, but the office admitted that they had been assessments, not meeting the objective of evaluation as defined by UNICEF — to ensure accountability against expected results; promote organizational learning by providing critical input to major decisions; support evidence-based advocacy by addressing information gaps; and contribute to the organization's knowledge management. The remaining three evaluations had been cancelled — one because the pertinent component had been removed during the mid-term review, while the other two were cancelled without informing the Regional Office M&E advisor (in one of these two cases, the evaluation was cancelled without any recorded justification).

A sixth evaluation, *Evaluation of multi-grade schools*, was added in the 2015 IMEP following discussion with the new government. This evaluation was expected to be completed in September 2015.

In order to mitigate the lack of evaluations, the office had conducted multiple data-gathering exercises and assessments (for example MICS,⁸) and had devised tools (*Info-systems mapping* and *Child Protection mapping and basic analysis tool*). However, the audit found that these activities, though helpful, did not meet the objective of evaluations.

Incomplete evaluation of the country programme may risk missed opportunities for organizational learning and improvement (especially in providing input to development of the new country programme), and for addressing information gaps and providing evidence to influence policy decisions.

Agreed action 6 (medium priority): The country office agrees to institute a process to plan and implement evaluations adequately.

Staff responsible for taking action: Planning and Evaluation Specialist

Date by which action will be taken: February 2016

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over Programme Management, as defined above, were generally established and functioning during the period under audit.

⁸ The Multiple Indicator Cluster Survey (MICS) is a survey technique developed by UNICEF to provide internationally comparable data on the situation of children and women.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following:

- **Financial management.** This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management.** This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT).** This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All of the above areas were covered in this audit, excluding inventory management and ICT; the first had been assessed as low risk (the Panama office does not control much inventory), while ICT services are provided by the Regional Office in the same premises.

The audit noted a number of areas where controls were functioning well. The office had an up-to-date bank signatory panel, and based on samples reviewed, bank reconciliations were timely, and were correctly conducted with appropriate segregation of duties. Also, there was systematic monitoring of timeliness and completeness of financial-transaction processing conducted for the office by the Panama Hub.

The multi-country advisory committees run by the Panama Hub, such as the Property Survey Board (PSB), were functioning properly as per established ToRs.

However, the audit noted the following.

Direct cash transfer (DCT) management

DCT was the largest programme input in 2014 – US\$ 455,983, which was 27 percent of the year's expenditure. The audit sampled six cash transfer payments and seven liquidation transactions for five different partners. The sampled cash transfer's total value was US\$ 218,310, about 48 percent of 2014 annual expenditure on DCTs. All were to NGOs (no government partners received cash transfers during 2014).

The audit noted that one DCT payment, of US\$ 44,316, was made two days before the FACE payment request was approved. This risks inappropriate use of resources. In another case, the payment was rushed; the partner was paid US\$ 71,044 in one lump sum based on a PCA signed in October 2014, with funds expiring in December 2014. This was the largest individual DCT payment in 2014. This activity was planned to be fully liquidated within three months from

the payment, but it took six months. Lump-sum payments carry the risk of untimely detection of poor-quality implementation.

To minimize internal delays, the Panama Hub periodically monitored timeliness of processing, and the country office had introduced a documented alternate system since 2014, which required staff to leave handover notes, including any upcoming DCT transactions, in case of lengthy absence. Despite this, the audit also noted delays in processing payments and liquidation of DCTs. In three of the cases sampled by the audit, the payments were on time, but the remainder took three to four weeks (from the date the payment request was received). In these cases, the payments were not made until two to four weeks after the planned activity start date in the PCA. Also, one liquidation took four weeks from the date the FACE was approved. Untimely processing of DCT requests and liquidations could lead to delays in implementation of planned activities.

Agreed action 7 (medium priority): The country office agrees to strengthen management of direct cash transfers by ensuring that the cash transfer requests, payments and liquidations are based on properly completed Funding Authorization Certificate of Expenditure (FACE) forms, that these are processed in a timely manner, and that the releases are based on assessed capacities of partners to use the funds during the agreed periods.

Staff responsible for taking action: Panama country office Operations Assistant, Operations manager of Panama Hub

Date by which action will be taken: December 2015

Contract management

Contracts were the second largest programme input by expenditure, amounting to US\$ 190,159 or 23 percent in 2014. The office raised 18 individual contracts for a total value of US\$ 541,434 and seven institutional contracts for a total value of US\$ 197,666 in 2014. Some of these contracts were ongoing at the time of the audit, which sampled five individual contracts for total value of US\$ 119,344 and three institutional contracts for total value of US\$ 141,441. It noted the following.

Terms of reference: Some ToRs did not define the expected deliverables in detail, giving only their titles or general description. These institutional contracts did not define number of staff involved, their credentials, etc. In one case, the ToRs stated that a number of trips were required to Panama, but did not define specific locations within the country, or the duration or objective of the travel.

Unclear ToRs carry the risk of poor (or unethical) candidate selection. The office stated that Regional Office HR had carried out training on ToRs for such contracts in 2015. It also said that the quality review of contract documents was undertaken by the Hub.

Competitive review: There were cases of inadequate segregation of duties in candidate selection. In these cases the staff member that approved the candidate selection, had also been involved in reviewing the candidates and making that selection. The staff member explained that this was due to contracts that required their expertise in selection and there were no alternates to approve the contracts. While the Regional Office HR staff had conducted quality assurance of the competitive review, the fact that the staff member who approved the selection had also been involved in the review had not been recorded and was hence not detected.

The quality of the candidate selection matrix had room for improvement. After receiving the applications, the office conducted what was called the 'desk review' before the candidate review documented in the selection matrix. This desk review was generally conducted by the supervising programme officers, who narrowed the candidates down to three. However the reasons for eliminating other candidates were not recorded.

Also, the comparison of quantifiable criteria specified in ToRs (such as number of years of experience) was not always recorded. For institutional contracts, qualifications of staff who would be carrying out the contract were not recorded in the selection matrices. Inadequate segregation of duties in candidate selection, and an incomplete candidate selection matrix, may risk selection of candidates other than those that are the best value, and/or leave room for unethical selection. However, the audit noted that the office had recently drawn up a new selection-matrix format and it was bringing it into use.

Amending contracts: Contract amendments were not always timely or according to the established procedures. Among four contracts that required amendment, in two cases, a note for the record (NFR) was written instead of using the office's standard format for contract amendment. These NFRs were signed only by the programme officer, were not approved by the management, and did not indicate when the contract would be finished. In another case, the request for amendment was submitted two months late, meaning the work had continued in between without a contract.

In the fourth case, the amendment request added four deliverables to the original contract for three deliverables, doubling the fee from US\$ 10,000 to US\$ 22,000. This meant that the office had not adequately specified the expected deliverables in the ToR. Inadequate amendment of contracts may lead to disputes, or risk untimely detection of delays or poor quality in implementation.

Data recording: There were some errors in the contract data recording. Of 20 individual contracts from January 2014 up to the date of the audit in 2015, while the payments were adequately supported by the manual evaluations, the evaluations were not correctly recorded in VISION in six cases. Four contracts for international consultants recorded their nationality as Panamanian. Incorrect data in the contract database may lead to ineffective monitoring.

There was a more rigorous control mechanism available for contracts review than the office's own. This was the multi-country Contract Review Committee (CRC) operated by the Panama hub. However, due to the high threshold of US\$ 50,000, this mechanism was activated for only one contract out of 27 of institutional and individual contracts established during January 2014 up to the time of audit in 2015. Country offices have the option of lowering the threshold, but the office had yet to consider this option.

Agreed action 8 (medium priority): The country office, with the support of the Regional Office HR or Panama Hub as relevant, has agreed to strengthen contract management as follows:

- i. Include complete information on expected outputs in terms of reference.
- ii. Adequately document the justification for the selection process in the candidate selection matrix.
- iii. Ensure adequate segregation of duties in the selection process.
- iv. Make contract amendments in a timely manner and in accordance with the established procedures.

- v. Enter data accurately in the contract database.
- vi. Review the current threshold for submission to the Contract Review.

Staff responsible for taking action: Panama country office Operations Assistant and Panama Hub Human Resources Manager

Date by which action will be taken: December 2015

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over Operations Support were generally established and functioning during the period under audit.

Annex A: Methodology, definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the regional office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the regional-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the regional office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over *[audit area]*, as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the controls and processes over *[audit area]*, as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the controls and processes over *[audit area]*, as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word “significant”.]

The audit team would normally issue an ***unqualified*** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a ***qualified*** conclusion will be issued for the audit area.

An ***adverse*** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes “significant” is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.